

Stephenson, Gracik & Co., P.C.
Certified Public Accountants & Consultants

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CITY OF WHITEMORE
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED MARCH 31, 2004

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF WHITEMORE	County IOSCO
Audit Date 03/31/2004	Opinion Date 04/30/2004	Date Accountant Report Submitted to State: July 12, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

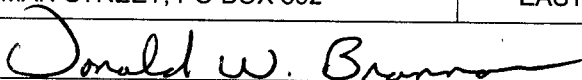
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) STEPHENSON, GRACIK & CO., P.C.			
Street Address 325 NEWMAN STREET, PO BOX 592	City EAST TAWAS	State MI	ZIP 48730
Accountant Signature 			

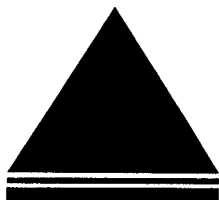
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AUDITORS' REPORT

		<u>PAGE</u>
	INDEPENDENT AUDITORS' REPORT	1
EXHIBIT A	<u>GENERAL PURPOSE FINANCIAL STATEMENTS</u> COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS	2
EXHIBIT B	COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES	3
EXHIBIT C	COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS	4
EXHIBIT D	COMBINED STATEMENT OF REVENUE, EXPENSES AND CHANGES IN RETAINED EARNINGS/FUND BALANCE - ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS	5
EXHIBIT E	COMBINED STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS	6
EXHIBIT F	NOTES TO FINANCIAL STATEMENTS	7 - 12

OTHER DATA

	REPORT ON OTHER DATA	13
EXHIBIT G	<u>GENERAL FUND</u> STATEMENT OF REVENUE - BUDGET AND ACTUAL	14
EXHIBIT H	STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL	15
EXHIBIT I	<u>ALL SPECIAL REVENUE FUNDS</u> COMBINING BALANCE SHEET	16
EXHIBIT J	COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES	17
EXHIBIT K	<u>ALL TRUST AND AGENCY FUNDS</u> COMBINING BALANCE SHEET	18
EXHIBIT L	<u>AGENCY FUNDS</u> STATEMENT OF CHANGES IN ASSETS AND LIABILITIES	19
	REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	20



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April 30, 2004

Independent Auditors' Report

Members of the City Council
City of Whittemore
Iosco County, Michigan

We have audited the accompanying general purpose financial statements of the City of Whittemore, Iosco County, Michigan, as of and for the year ended March 31, 2004, as listed in the index. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the City of Whittemore, Iosco County, Michigan, as of March 31, 2004, and the results of its operations and the cash flows of its proprietary fund types and non-expendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2004, on our consideration of the City of Whittemore's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Stephenson, Gracik & Co., P.C.

CITY OF WHITTEMORE
Iosco County, Michigan

COMBINED BALANCE SHEET -
ALL FUND TYPES AND ACCOUNT GROUPS
March 31, 2004
With Comparative Totals for March 31, 2003

	Governmental Fund Types		Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)	
	General	Special Revenue		Trust and Agency	General Fixed Assets	March 31, 2004	March 31, 2003
ASSETS							
Cash (Note 2)	\$ 70,085	\$ 39,133	\$ 3,676	\$ 0	\$ 112,894	\$ 106,472	
Certificates of deposit (Note 2)	0	0	15,595	0	15,595	15,580	
Delinquent property taxes receivable	0	0	0	0	0	7,474	
Due from other funds (Note 3)	1,768	1,815	0	0	3,583	4,781	
Land and improvements (Note 4)	0	0	0	16,000	16,000	16,000	
Buildings and improvements (Note 4)	0	0	0	53,955	53,955	48,439	
Machinery and equipment (Note 4)	0	0	0	88,622	88,622	88,622	
Total Assets	\$ 71,853	\$ 40,948	\$ 19,271	\$ 158,577	\$ 290,649	\$ 287,368	
LIABILITIES AND FUND EQUITY							
Liabilities							
Accounts payable	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,059	
Accrued liabilities	96	187	0	0	283	372	
Due to other funds (Note 3)	0	2,685	898	0	3,583	4,781	
Due to State of Michigan	0	0	0	0	0	448	
Due to other units	0	0	2,873	0	2,873	6,642	
Total liabilities	96	2,872	3,771	0	6,739	15,302	
Fund Equity							
Investment in general fixed assets	0	0	0	158,576	158,576	153,061	
Fund Balances:							
Unreserved							
Undesignated	71,757	38,076	15,500	0	125,333	119,005	
Total fund equity	71,757	38,076	15,500	158,576	283,909	272,066	
Total Liabilities and Fund Equity	\$ 71,853	\$ 40,948	\$ 19,271	\$ 158,576	\$ 290,648	\$ 287,368	

The accompanying notes to financial statements are an integral part of this statement.

CITY OF WHITTEMORE
Iosco County, Michigan

COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
For the Year Ended March 31, 2004
With Comparative Totals for the Year Ended March 31, 2003

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>	
			<u>Year Ended</u>	
	<u>General</u>	<u>Special Revenue</u>	<u>March 31, 2004</u>	<u>March 31, 2003</u>
<u>Revenue</u>				
Taxes	\$ 44,478	\$ 0	\$ 44,478	\$ 43,363
Federal grants	0	448	448	0
State revenue	52,123	39,239	91,362	94,095
Interest	356	190	546	609
Other	3,414	0	3,414	3,833
Total revenue	<u>100,371</u>	<u>39,877</u>	<u>140,248</u>	<u>141,900</u>
<u>Expenditures</u>				
Current:				
General government	56,101	0	56,101	57,756
Public safety	6,161	0	6,161	6,055
Highways, streets and bridges	8,361	34,471	42,832	38,140
Other functions	23,513	0	23,513	21,959
Capital outlay	5,516	0	5,516	1,916
Total expenditures	<u>99,652</u>	<u>34,471</u>	<u>134,123</u>	<u>125,826</u>
Excess of revenue over expenditures	<u>719</u>	<u>5,406</u>	<u>6,125</u>	<u>16,074</u>
<u>Other Financing Sources (Uses)</u>				
Sale of fixed assets	0	0	0	2,801
Operating transfers in	777	6,703	7,480	10,184
Operating transfers out	0	(7,277)	(7,277)	(9,823)
Total other financing sources (uses)	<u>777</u>	<u>(574)</u>	<u>203</u>	<u>3,162</u>
Excess of revenue and other sources over expenditures and other uses	<u>1,496</u>	<u>4,832</u>	<u>6,328</u>	<u>19,236</u>
Fund balances - beginning of year	<u>70,261</u>	<u>33,244</u>	<u>103,505</u>	<u>84,269</u>
Fund balances - end of year	<u>\$ 71,757</u>	<u>\$ 38,076</u>	<u>\$ 109,833</u>	<u>\$ 103,505</u>

The accompanying notes to financial statements are an integral part of this statement.

**COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS**
For the Year Ended March 31, 2004

The accompanying notes to financial statements are an integral part of this statement.

CITY OF WHITTEMORE
Iosco County, Michigan

COMBINED STATEMENT OF REVENUE, EXPENSES AND CHANGES IN RETAINED
 EARNINGS/FUND BALANCE - ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS
 For the Year Ended March 31, 2004
With Comparative Totals for the Year Ended March 31, 2003

	<u>Fiduciary Fund Type</u>	
	<u>Nonexpendable Trust</u>	
	<u>March 31, 2004</u>	<u>March 31, 2003</u>
Operating Revenue	\$ 0	\$ 0
Operating Expenses	<u>0</u>	<u>0</u>
Operating Income	0	0
<u>Non-Operating Revenue</u>		
Interest income on investments	<u>203</u>	<u>361</u>
Income before operating transfers	203	361
<u>Other Financing Uses</u>		
Operating transfers out	<u>(203)</u>	<u>(361)</u>
Net income	0	0
Fund balance - beginning of year	<u>15,500</u>	<u>15,500</u>
Fund balance - end of year	<u>\$ 15,500</u>	<u>\$ 15,500</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF WHITTEMORE
Iosco County, Michigan

COMBINED STATEMENT OF CASH FLOWS - ALL PROPRIETARY
 FUND TYPES AND SIMILAR TRUST FUNDS
 For the Year Ended March 31, 2004
With Comparative Totals for the Year Ended March 31, 2003

	<u>Fiduciary Fund Type</u>	
	<u>Nonexpendable Trust</u>	
	<u>March 31, 2004</u>	<u>March 31, 2003</u>
<u>Cash Flows From Noncapital Financing Activities</u>		
Cash paid to other funds	\$ (188)	\$ (355)
<u>Cash Flows From Investing Activities</u>		
Interest received on investments	<u>188</u>	<u>355</u>
Net increase in cash and cash equivalents	0	0
Cash and cash equivalents at beginning of year	<u>0</u>	<u>0</u>
Cash and cash equivalents at end of year	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF WHITEMORE
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of City Operations and Fund Types

The City of Whittemore operates under an elected City Council and provides services to its approximately 761 residents in many areas including fire protection, maintenance of major and local streets, and provision for library. The financial statements of the City have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. All activities over which the City exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

Education services are provided to citizens through the local school districts which are separate government entities and are not a part of this report.

Joint Venture

The B.R.W. Fire Board was established as a joint venture between the City of Whittemore, Township of Burleigh and the Township of Reno. The Board was established to provide fire protection services to the constituent municipalities. The City's contribution for the year ended March 31, 2004 was \$6,161. Complete financial statements can be obtained from the B.R.W. Fire Board's office located in the City of Whittemore fire hall, Whittemore, Michigan.

B. Basis of Presentation

The financial activities of the local unit are recorded in separate funds and account groups, categorized and described as follows:

1. Governmental Funds:

General Fund - This fund is used to account for all transactions not accounted for in another fund, including the general operating expenditures of the City. Revenue is derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenue.

Special Revenue Funds - These funds are used to account for specific governmental revenue requiring separate accounting because of legal or regulatory provisions or administrative action.

2. Fiduciary Funds:

These funds are used to account for assets held in trust or as an agent for others, and consist of the Trust and Agency Fund and the Cemetery Perpetual Care Fund.

3. Account Groups:

General Fixed Assets Account Group - This account group presents the fixed assets the local unit utilizes in its general operations.

CITY OF WHITTEMORE
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available, means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

The financial activity of the Agency Funds is limited to collection of amounts which are subsequently returned or paid to third parties and, accordingly, are limited to cash transactions.

The accounts of the City are maintained on the modified accrual basis of accounting as follows:

1. Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned. Other revenue is recorded when received.

Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are due on September 15 with the final collection date of February 14 before they are added to the County tax rolls.

For the current year, the taxable value for properties located within the City was \$4,279,103. The tax rates were 8.3990 mills for operations and 1.4466 mills for fire protection.

2. Revenue from the sale of City services and assessments is recorded when billed. On this basis, no recognition is given to unbilled services. All other revenue is recognized when collected in cash.
3. Payrolls and other costs are recognized as incurred.
4. Inventories are not recognized and materials are expensed when received.

CITY OF WHITEMORE
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

E. Budgets and Budgetary Accounting

The City normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The City Clerk submits to the City Board a proposed operating budget which includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to April 1, the budget is legally enacted through passage of an ordinance.

All budget appropriations lapse at year end. Budgetary amounts reported herein are as originally adopted, or as amended by the City Council.

Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles, and consist only of those amounts contained in the formal budget approved and amended by the City Council.

F. Statement of Cash Flows

For purposes of the statement of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

NOTE 2 - DEPOSITS AND INVESTMENTS

The captions on the financial statements for the deposit accounts were as follows:

	<u>Deposits</u>
Cash	\$ 112,894
Certificates of deposit	<u>15,595</u>
	<u>\$ 128,489</u>

CITY OF WHITEMORE
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits are carried at cost. Deposits of the City are held at First Bank of West Branch, West Branch, Michigan. At March 31, 2004, the carrying amounts of the City's deposits were classified as to risk as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 115,595	\$ 115,595
Uninsured – uncollateralized	<u>12,894</u>	<u>15,923</u>
	<u>\$ 128,489</u>	<u>\$ 131,518</u>

Investments:

The City Council has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the City to deposit and invest in the following:

- * Accounts of federally insured banks, credit unions and savings and loan associations
- * Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- * United States government or federal agency obligation repurchase agreements
- * Banker's acceptances of United States banks
- * Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase
- * Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The City's deposits are in accordance with statutory authority.

NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables have not been eliminated in the preparation of the Combined Balance Sheet (EXHIBIT A). Operating transfers in and out have not been offset in the preparation of the Combined Statements of Revenue and Expenditures (EXHIBITS B and C) and the Combined Statement of Revenues and Expenses (EXHIBIT D).

CITY OF WHITEMORE
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES (CONTINUED)

The amounts of interfund receivables and payables as of March 31, 2004 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ 870	Local Street Fund	\$ 870
General Fund	803	Trust and Agency Fund	803
General Fund	95	Cemetery Perpetual Care Fund	95
Local Street Fund	<u>1,815</u>	Major Street Fund	<u>1,815</u>
Total	<u>\$ 3,583</u>	Total	<u>\$ 3,583</u>

NOTE 4 - CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets follows:

	<u>Balance 04/01/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 03/31/04</u>
Land and improvements	\$ 16,000	\$ 0	\$ 0	\$ 16,000
Buildings and improvements	48,439	5,516	0	53,955
Machinery and equipment	<u>88,622</u>	<u>0</u>	<u>0</u>	<u>88,622</u>
Totals	<u>\$ 153,061</u>	<u>\$ 5,516</u>	<u>\$ 0</u>	<u>\$ 158,577</u>

NOTE 5 - PENSION PLAN

The City has a defined contribution pension plan of which all employees are eligible to participate. The plan is operated through the Auto Owners Insurance Company.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. Eligibility to become a participant is limited to those employees who, on the effective date or on any anniversary date, are at least age 18 but not more than age 75.

The City is required to contribute an amount equal to 12% of the employee's gross earnings.

During the year, the City's required contributions amounted to \$6,506 which is 12% of its current year covered payroll. The City's actual contributions amounted to \$6,506.

No pension provision changes occurred during the year that affected the required contributions to be made by the City or its employees.

CITY OF WHITEMORE
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

NOTE 6 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the City for these budgetary funds were adopted to the functional level.

During the year ended March 31, 2004, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Municipal Water Project Fund:			
Operating transfers out	\$ 0	\$ 574	\$ 574

NOTE 7 - UNEMPLOYMENT COMPENSATION

The City is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the City must reimburse the Employment Agency for all benefits charged against the City. All liabilities incurred have been accrued in the financial statements as of March 31, 2004.

NOTE 8 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City continues to carry commercial insurance for risks of loss. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 9 - NEW REPORTING STANDARD

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". This Statement establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The City is required to implement this standard for the fiscal year ending March 31, 2005. The City has not yet determined the full impact that adoption of GASB Statement 34 will have on the financial statements.

NOTE 10 - TOTALS (MEMORANDUM ONLY)

The total column on the Combined Statements is captioned Memorandum Only to facilitate financial analysis. Data in this column does not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

OTHER DATA

REPORT ON OTHER DATA

April 30, 2004

Our audit was conducted for the purpose of forming an opinion on the March 31, 2004 general purpose financial statements taken as a whole. The combining and individual fund financial statements and schedules, EXHIBITS G through L, including comparative totals for 2003, are presented for purposes of additional analysis and are not a required part of the 2004 general purpose financial statements of the City of Whittemore, Iosco County, Michigan. The information has been subjected to the auditing procedures applied in the audit of the 2004 general purpose financial statements, and in our opinion, is fairly stated in all material respects in relation to the 2004 general purpose financial statements taken as a whole.

Stephenson, Graub & Co., P.C.

CITY OF WHITTEMORE
Iosco County, Michigan

GENERAL FUND
 STATEMENT OF REVENUE - BUDGET AND ACTUAL
 For the Year Ended March 31, 2004
With Comparative Actual Amounts for the Year Ended March 31, 2003

	<u>2004 Budget</u>	<u>2004 Actual</u>	<u>2003 Actual</u>
<u>Taxes</u>			
Current property taxes	\$ 49,185	\$ 44,478	\$ 43,363
 <u>State Shared Revenue and Grants</u>			
State revenue sharing and liquor licenses	52,123	52,123	56,639
 Interest	514	356	438
 <u>Other Revenue</u>			
Refunds and reimbursements	1,117	1,119	1,583
Other	2,295	2,295	2,250
	<u>3,412</u>	<u>3,414</u>	<u>3,833</u>
 Total Revenue	<u>\$ 105,234</u>	<u>\$ 100,371</u>	<u>\$ 104,273</u>

CITY OF WHITEMORE
Iosco County, Michigan

GENERAL FUND
 STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
 For the Year Ended March 31, 2004
With Comparative Actual Amounts for the Year Ended March 31, 2003

	<u>2004 Budget</u>	<u>2004 Actual</u>	<u>2003 Actual</u>
<u>General Government</u>			
City Council	\$ 17,195	\$ 16,741	\$ 20,181
Mayor	6,700	6,409	6,393
Elections	1,400	497	945
Assessor	5,200	4,944	5,218
Clerk	7,000	6,587	6,692
Board of review	400	487	260
Treasurer	6,850	6,561	6,494
Buildings and grounds	<u>14,069</u>	<u>13,875</u>	<u>11,573</u>
	<u>58,814</u>	<u>56,101</u>	<u>57,756</u>
<u>Public Safety</u>			
Fire protection	<u>7,000</u>	<u>6,161</u>	<u>6,055</u>
<u>Highways, Streets and Bridges</u>			
Street lighting	8,668	8,361	8,812
Street maintenance	<u>0</u>	<u>0</u>	<u>3,043</u>
	<u>8,668</u>	<u>8,361</u>	<u>11,855</u>
<u>Other Functions</u>			
Library	11,600	11,270	10,941
Insurance and bonds	7,536	7,536	6,387
Employee benefits	<u>5,200</u>	<u>4,707</u>	<u>4,631</u>
	<u>24,336</u>	<u>23,513</u>	<u>21,959</u>
<u>Capital Outlay</u>			
Department of public works	0	0	1,916
Buildings and grounds	<u>6,416</u>	<u>5,516</u>	<u>0</u>
	<u>6,416</u>	<u>5,516</u>	<u>1,916</u>
Total Expenditures	<u>\$ 105,234</u>	<u>\$ 99,652</u>	<u>\$ 99,541</u>

CITY OF WHITEMORE
Iosco County, Michigan

ALL SPECIAL REVENUE FUNDS
 COMBINING BALANCE SHEET
 March 31, 2004
With Comparative Totals for March 31, 2003

				<u>Totals</u>	
	<u>Major Street Fund</u>	<u>Local Street Fund</u>	<u>Municipal Water Project Fund</u>	<u>March 31, 2004</u>	<u>March 31, 2003</u>
<u>ASSETS</u>					
Cash	\$ 28,399	\$ 10,734	\$ 0	\$ 39,133	\$ 34,244
Due from other funds	<u>0</u>	<u>1815</u>	<u>0</u>	<u>1,815</u>	<u>574</u>
Total Assets	<u>\$ 28,399</u>	<u>\$ 12,549</u>	<u>\$ 0</u>	<u>\$ 40,948</u>	<u>\$ 34,818</u>
<u>LIABILITIES AND FUND EQUITY</u>					
<u>Liabilities</u>					
Accrued liabilities	\$ 187	\$ 0	\$ 0	\$ 187	\$ 256
Due to other funds	1,815	870	0	2,685	870
Due to State of Michigan	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>448</u>
Total liabilities	2,002	870	0	2,872	1,574
<u>Fund Equity</u>					
Fund Balances:					
Unreserved					
Undesignated	<u>26,397</u>	<u>11,679</u>	<u>0</u>	<u>38,076</u>	<u>33,244</u>
Total Liabilities and Fund Equity	<u>\$ 28,399</u>	<u>\$ 12,549</u>	<u>\$ 0</u>	<u>\$ 40,948</u>	<u>\$ 34,818</u>

CITY OF WHITEMORE
Iosco County, Michigan

ALL SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
For the Year Ended March 31, 2004
With Comparative Totals for the Year Ended March 31, 2003

	Major Street Fund	Local Street Fund	Municipal Water Project Fund	Totals	
				March 31, 2004	March 31, 2003
<u>Revenue</u>					
Federal grants	\$ 0	\$ 0	\$ 448	\$ 448	\$ 0
State revenue sharing and grants	28,079	11,160	0	39,239	37,456
Interest	141	49	0	190	171
Total revenue	<u>28,220</u>	<u>11,209</u>	<u>448</u>	<u>39,877</u>	<u>37,627</u>
<u>Expenditures</u>					
Highways, streets and bridges:					
Routine maintenance	11,026	5,359	0	16,385	17,618
Winter maintenance	8,659	2,895	0	11,554	8,667
Construction	0	6,532	0	6,532	0
Total expenditures	<u>19,685</u>	<u>14,786</u>	<u>0</u>	<u>34,471</u>	<u>26,285</u>
Excess of revenue over (under) expenditures	<u>8,535</u>	<u>(3,577)</u>	<u>448</u>	<u>5,406</u>	<u>11,342</u>
<u>Other Financing Sources (Uses)</u>					
Operating transfers in	0	6,703	0	6,703	6,780
Operating transfers out	(6,703)	0	(574)	(7,277)	(9,823)
Total other financing sources (uses)	<u>(6,703)</u>	<u>6,703</u>	<u>(574)</u>	<u>(574)</u>	<u>(3043)</u>
Excess of revenue and other sources over (under) expenditures and other uses	1,832	3,126	(126)	4,832	8,299
Fund balances - beginning of year	<u>24,565</u>	<u>8,553</u>	<u>126</u>	<u>33,244</u>	<u>24,945</u>
Fund balances - end of year	<u>\$ 26,397</u>	<u>\$ 11,679</u>	<u>\$ 0</u>	<u>\$ 38,076</u>	<u>\$ 33,244</u>

CITY OF WHITEMORE
Iosco County, Michigan

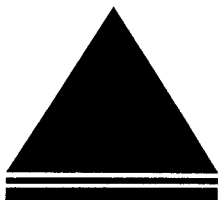
ALL TRUST AND AGENCY FUNDS
 COMBINING BALANCE SHEET
 March 31, 2004
With Comparative Totals for March 31, 2003

			<u>Totals</u>	
	<u>Trust and Agency</u>	<u>Cemetery Perpetual Care</u>	<u>March 31, 2004</u>	<u>March 31, 2003</u>
<u>ASSETS</u>				
Cash	\$ 3,676	\$ 0	\$ 3,676	\$ 9,899
Certificates of deposit	<u>0</u>	<u>15,595</u>	<u>15,595</u>	<u>15,580</u>
Total Assets	<u>\$ 3,676</u>	<u>\$ 15,595</u>	<u>\$ 19,271</u>	<u>\$ 25,479</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities</u>				
Due to other funds	\$ 803	\$ 95	\$ 898	\$ 3,337
Due to other units	<u>2,873</u>	<u>0</u>	<u>2,873</u>	<u>6,642</u>
Total liabilities	<u>3,676</u>	<u>95</u>	<u>3,771</u>	<u>9,979</u>
<u>Fund Equity</u>				
Fund balances:				
Unreserved				
Undesignated	<u>0</u>	<u>15,500</u>	<u>15,500</u>	<u>15,500</u>
Total Liabilities and Fund Equity	<u>\$ 3,676</u>	<u>\$ 15,595</u>	<u>\$ 19,271</u>	<u>\$ 25,479</u>

CITY OF WHITTEMORE
Iosco County, Michigan

AGENCY FUNDS
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
For the Year Ended March 31, 2004

	<u>Balance</u> <u>April 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>March 31, 2004</u>
<u>Trust and Agency Fund</u>				
Cash	\$ 9,899	\$ 147,914	\$ 154,137	\$ 3,676
Due to other funds	(3,257)	48,650	46,196	(803)
Due to county	(2,167)	42,448	40,693	(412)
Due to schools	(4,475)	53,227	49,144	(392)
Due to State of Michigan	0	4,085	6,025	(1,940)
Due to federal government	0	5,727	5,727	0
Due to others	0	0	129	(129)
	<u>\$ 0</u>	<u>\$ 302,051</u>	<u>\$ 302,051</u>	<u>\$ 0</u>



Stephenson, Gracik & Co., P.C.
Certified Public Accountants & Consultants

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Gerald D. Gracik Jr., CPA
James J. Gracik, CPA
E. Thad Gray, CPA
Donald W. Brannan, CPA
Kyle E. Troyer, CPA
Herman A. Bertuleit, CPA

April 30, 2004

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the City Council
City of Whittemore
Iosco County, Michigan

We have audited the general purpose financial statements of the City of Whittemore as of and for the year ended March 31, 2004, and have issued our report thereon dated April 30, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

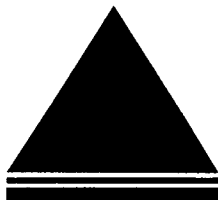
As part of obtaining reasonable assurance about whether the City of Whittemore's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City of Whittemore in a separate letter dated April 30, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Whittemore's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, City Council and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Gracik & Co., P.C.



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April 30, 2004

Members of the City Council
City of Whittemore
Iosco County, Michigan

Dear Council Members:

We have audited the general purpose financial statements of the City of Whittemore for the year ended March 31, 2004, and have issued our report thereon dated April 30, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated February 18, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the general purpose financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the City of Whittemore's internal control. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the City of Whittemore's general purpose financial statements are free of material misstatement, we performed tests of its' compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Whittemore are described in Note 1 to the general purpose financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City of Whittemore during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the general purpose financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of Whittemore's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the City of Whittemore, either individually or in the aggregate, indicate matters that could have a significant effect on the City of Whittemore's financial reporting process.

Stephenson, Gracik & Co., P.C.

Members of the City Council
City of Whittemore
April 30, 2004
Page Two

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Whittemore's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Budget Control

We noted that the City's Municipal Water Project Fund included expenditures in one function that exceeded appropriated amounts. We recommend that the City Council continue to amend the budgets for all funds as needed and take into consideration year end accounts payable and recurring year end audit adjustments.

GASB 34 Implementation

New Financial Accounting Standards Affecting Governments

The format for governmental financial statements has been revised by the Governmental Accounting Standards Board (GASB), the organization responsible for promulgating accounting standards which governments must follow. The Statement, GASB Statement 34, requires these changes be implemented by all governmental units over the next several years. Significant changes from the current presentation include:

1. The addition of a transmittal letter describing management's analysis of the financial statements and current financial condition of the governmental unit.
2. The presentation of "Government Wide Financial Statements" on a full accrual accounting basis as opposed to the current "modified accrual basis".
3. The inclusion of "Individual and Combining Fund Financial Statements" presented on their existing basis of accounting including a reconciliation with the Government Wide Financial Statements.
4. The reporting of governmental activity expenditures net of "program revenues" to determine activity costs funded by public dollars (i.e. taxes, interest, etc.).
5. The requirement to report the value of infrastructure assets (i.e. road, bridges, etc.) as assets on the balance sheet of the governmental unit.

Stephenson, Gracik & Co., P.C.

Members of the City Council
City of Whittemore
April 30, 2004
Page Three

6. The requirement to report depreciation on all fixed assets, including infrastructure assets and general fixed assets.
7. The requirement to report both the original adopted budget and the final budget in the Budget to Actual comparative operating financial statement.

If adopted, the City of Whittemore will need to implement these changes by the year ended March 31, 2005.

Alternative Option Available

Currently, the State of Michigan Department of Treasury has passed a policy to allow the following departures from the above standards without sanctions against the unit of government.

- Omission of Management's Discussion and Analysis
- Omission of Government Wide Financial Statements
- Omission of Infrastructure Asset Reporting

If units of government elect to omit the above listed items, a "qualified" independent auditors' opinion will be issued by the CPA firm on the financial statements. The effect of the qualification is expected to be minimal.

The new reporting standards have wide-sweeping implications in terms of identifying and accumulating information to comply with the standard. We would be happy to discuss with you the options available to the City of Whittemore to assist in their implementation.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the City.

This information is intended solely for the use of management, City Council and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Gracik & Co., P.C.